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C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 000159

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TAGS: PGOV PREL ECON ELTN RS TX KZ
SUBJECT: KAZAKHSTAN: GE EXECUTIVE DISCUSSES REGIONAL PLANS

Classified By: Charge Pamela L. Spratlen, 1.4 (b), (d)

¶1. (SBU) SUMMARY: An American executive with General Electric's Transportation Division visited the Embassy on February 3 to discuss the company's plans to assemble locomotives in Kazakhstan and expand into the Russian market. He identified financial and political challenges the company faces, and said the customs union with Russia and Belarus is unlikely to change the conservative culture or monopolistic practices of Russia's state railway company. He also said draft U.S. legislation to strengthen sanctions against Iran would be a "catastrophe" for U.S. businesses that invest abroad. END SUMMARY.

EXIM WANTS A SOVEREIGN GUARANTEE

¶2. (C) On February 3, Richard Herold, International Government Relations Leader for General Electric (GE)'s Transportation division, briefed acting Pol/Econ chief on GE's plans and prospects for assembling and manufacturing locomotives and diesel engines in the region. (NOTE: Herold is a former Foreign Service Officer, fluent in Chinese, who served primarily in Asia and Africa. After leaving the Foreign Service in 1990, he joined British Petroleum, where he worked for 19 years, including during the acrimonious dispute between BP and its Russian partners in the TNK-BP joint venture. END NOTE). Herold said that GE has already assembled one Evolution-class locomotive at the new Astana plant, and plans to produce a total of 20 locomotives by the end of 2010. He added that GE is in talks with National Welfare Fund Samruk-Kazyna, which owns national railway company Kazakhstan Temir Zholy (KTZh), to sell an additional \$150 million in locomotive kits. Herold said that the U.S. Export-Import Bank (EXIM) has insisted on a sovereign guarantee before it agrees to provide financing for the transaction. However, according to Herold, Samruk-Kazyna's chairman Kairat Kelimbetov told GE on February 3 that he was reluctant to ask the government to provide a sovereign guarantee, saying, "our word should be good enough." Herold said that negotiations with EXIM and Samruk-Kazyna were ongoing.

GE EAGER TO ENTER RUSSIAN MARKET

¶3. (C) Herold also discussed GE's ambitions to sell its locomotives on the Russian market. He said that, on paper, the Customs Union with Russia, Kazakhstan, and Belarus should give GE an opportunity to compete with Russian locomotive and diesel engine manufacturers. However, he admitted that Russia's state-owned railway company Russian Railways (RZhD) has strong, monopoly control over the Russian market, and breaking in will not be easy. Herold said RZhD is "a huge, sprawling empire. It's worse than Gazprom." According to Herold, the head of RZhD, Vladimir Yakunin, is an old friend of Russian Prime Minister Putin, and a "fellow member of the St. Petersburg mafia." He added that Yakunin has made sizeable cash payments to Putin, and speculated that Putin's net worth is well over \$10 billion. (NOTE: RZhD is one of the largest railway companies in the world, with more than 1.2 million employees. It accounts for nearly 4% of Russia's GDP and handles approximately 80% of all freight in Russia. Yakunin graduated from the Leningrad Institute of Mechanics in 1972, worked as a senior engineer in the Soviet Council of Ministers for Foreign Trade, and served as First Secretary of the USSR's Permanent Representative Office at the United Nations from 1985-1991. END NOTE).

PRESSURE TO INCREASE LOCAL CONTENT

¶4. (SBU) According to Herold, GE is pleased with the success of its locomotive assembly plant in Astana, but he said the company has come under increasing pressure to raise the percentage of local content among staff and subcontractors. Herold said he understood the government's position, but

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stated, "there simply is not enough talent out there now" to meet GE's demand for experienced managers and engineers.

IRAN SANCTIONS BILL

¶5. (C) Herold also said GE was concerned about draft U.S. legislation that would strengthen the sanctions regime against Iran. He said that if the legislation is adopted as currently drafted, it would sanction companies that do business with companies that do business with Iran. He said the consequences for U.S. trade and investment would be "catastrophic." For example, he noted that GE's Astana locomotive assembly plant is a joint venture with KTZh, and he said that KTZh is in detailed discussions with the national railway company of Turkmenistan to build a rail line to Iran. Herold speculated that GE would be subject to sanctions under the draft U.S. law, and would lose EX-IM financing for future expansion projects. (NOTE: On February 5, Turkmenistan's Ministry of Foreign Affairs released a statement following a meeting with an Iranian delegation, calling construction of a rail link from the city of Bereket to the Iranian border, "an important factor in the develop of an unbiased, mutually beneficial relationship with Iran."

NAZARBAYEV'S HEALTH

¶6. (C) Before the meeting adjourned, Herold said that President Nazarbayev was scheduled to meet GE's CEO Jeff Immelt last summer, but cancelled the meeting "for health reasons." Herold said he was told that Nazarbayev flew to an undisclosed location in Europe for a medical procedure.

¶7. (SBU) COMMENT: Senior government officials often cite GE's investment in Kazakhstan as a perfect example of the type of investment they would like to attract, particularly as the country seeks to diversify its economy. Certainly GE's locomotive assembly plant is an important investment. But the true test of Kazakhstan's commitment to economic diversification will be its support of GE's more ambitious, long-term plans to manufacture locally and export regionally its locomotives and engines, rather than simply assembling kits that were made in the USA. END COMMENT.

SPRATLEN